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Item 12 of the provisional agenda

WORKING CAPITAL FUND

Proposals for the Working Capital Fund for the biennium 1992-1993

Note by the Director-General

Summary

On the basis of experience gathered in the biennium 1990-1991, makes proposals on the level and authorized purposes of the Working Capital Fund for the biennium 1992-1993.

Introduction

1. In accordance with financial regulation 5.4(a), the Programme and Budget Committee should recommend to the Board the amount and purposes of the Working Capital Fund.

2. Financial regulation 5.4(b) stipulates that "the source of moneys for the Fund shall be advances from Members, which shall be made in the proportion of the scale of assessments established by the Conference for the contributions of Members to the regular budget. The advances shall be carried to the credit of the respective Members who made the advances."

Biennium 1990-1991

3. In its decision GC.3/Dec.20, the General Conference decided that the level of the Working Capital Fund should be $9 million and that the authorized purposes of the Fund should remain the same as for the 1988-1989 biennium. Accordingly, the Conference authorized the Director-General to advance from the Fund during the 1990-1991 biennium:

> "(i) Such sums as might be necessary to finance budgetary appropriations pending the receipt of contributions; sums so advanced should be reimbursed as soon as receipts from contributions were available for that purpose;
>
> "(ii) Such sums as might be necessary to finance unforeseen and extraordinary expenses, excluding expenditures intended to compensate for any losses caused by fluctuation in exchange rates; for sums so advanced, the Director-General should make provision in the budget estimates for reimbursing the Working Capital Fund." (GC.2/Dec.27(b)).

4. The Conference also decided that the advances to the Working Capital Fund should continue to be assessed and paid in United States dollars, as stated in financial regulation 5.5(d).

5. As at 31 December 1990, the status of advances from Member States to the Working Capital Fund was $8,959,772. During 1990, UNIDO had to make several withdrawals amounting to $8,190,000 to cover shortfalls in the collection of assessed contributions and to meet the monthly payrolls. As of 31 December 1990, the cash balance in the Working Capital Fund amounted to only $769,772. Due to the persistently critical cash-flow situation during 1990, assessed contributions received could not be used to replenish the Working Capital Fund. Present estimates of cash flow indicate that the Fund will be completely exhausted before the end of 1991.

6. The Working Capital Fund, having been utilized to finance budgetary appropriations pending the receipt of contributions, would normally be replenished as soon as and to the extent that contributions or advances from Member States are available for that purpose. Until this occurs, the Organization has no funds available to bridge any short-term gaps in the flow of funds from assessed contributions.

7. The decision of the General Conference to suspend temporarily financial regulations 4.2(b) and 4.2(c) with respect to the 1986-1987 biennium to allow UNIDO to retain the unutilized balance of the appropriations (GC.3/Dec.17(c)) has provided additional working capital. Without the suspension of these financial regulations, the current cash crisis of UNIDO would have been even more critical.

Proposals for the biennium 1992-1993

8. It is proposed that the current level of the Working Capital Fund of $9 million be maintained for

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1992-1993 and that the purposes of the Fund continue to be those established by the Conference in its decision GC.2/Dec.27(b).

9. On the basis of experience gathered since the 1986-1987 biennium, the Director-General assumes that most Member States will eventually meet their obligations to pay their outstanding assessed contributions in the future, thereby providing funds to replenish the Working Capital Fund. However, the Director-General is concerned that it does not seem likely that sufficient Member States will meet their obligations fully during 1991.

ACTION REQUIRED BY THE COMMITTEE

10. The Committee may wish to recommend to the Industrial Development Board that it: (a) recommend to the General Conference that the level of the Working Capital Fund and the authorized purposes of the Fund for the 1992-1993 biennium remain the same as for the 1990-1991 biennium; (b) urge Member States to pay their outstanding assessed contributions as soon as possible to facilitate reimbursement to the Working Capital Fund; and (c) consider other ways of restoring the Working Capital Fund to its authorized level.